



## **Theme II**

# **Land Privatisation and Land Market in Lithuania**

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**2000**

## 1. INTRODUCTION

In 1990-1999 Lithuania achieved a lot in stabilising the macro-economy: gross domestic product (GDP) started to increase, the inflation was not only reduced but even stopped (the inflation in 1996 was 13,1%, in 1999 it stood at 0,3%), the foreign trade balance and state debts are controlled and the banking sector has recovered and became stronger.

A lot of efforts were put in establishing the market economy: prices and trade have been sufficiently liberalised, liberal conditions are made for investments, the larger scale privatisation of real property is realised, important market institutions are established and the stability of local currency is ensured.

Implementing the Action Program for 1997-2000 the Government is seeking to make better legal, economic and organisational conditions for the development of the real property market.

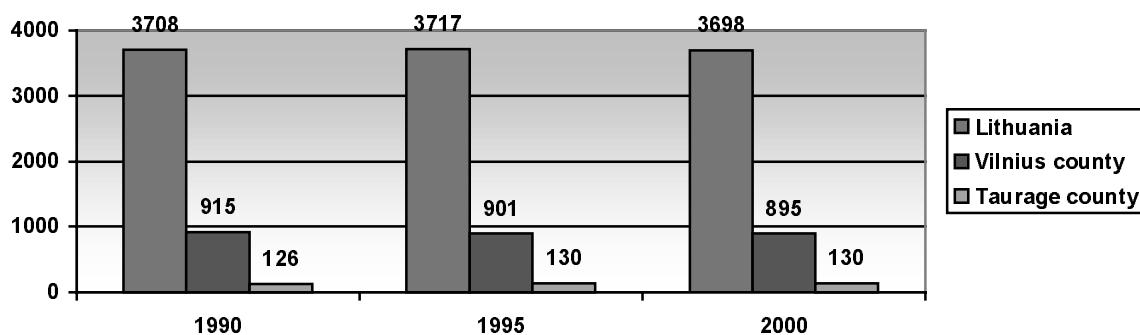
The Seimas of the Republic of Lithuania has passed the laws that provide for the restoration of ownership rights to the existing real property to the citizens of the Republic of Lithuania and if there is no possibility to compensate for the property in a fair way. The restoration of ownership started in 1991. Recently, the restoration of ownership to land and forest has been speeded up. The attitude of the Lithuanian citizens towards the ownership is very important and it is reflected in the provision of the Article 23 of the Constitution " Ownership is inviolable. Law protects ownership rights. Ownership can be taken for public needs only following the procedure prescribed by laws and must be justly compensated".

This paper gives some statistical data that estimate the restoration of ownership to real property and privatisation of various types of immovable properties in whole area of Lithuania and in two separate counties. The document will also provide data on the development of the real property market and other indicators affecting the economic rate and dynamics of the land market.

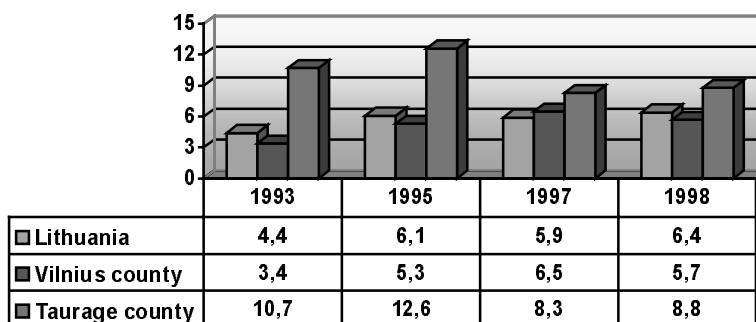
## 2. ECONOMIC, LEGAL BACKGROUND

Lithuania is one of the states on the Eastern shore of the Baltic Sea. The territory of Lithuania covers an area of 65300 sq. km. The area of the Vilnius county is 9650 sq. km and the Taurage county - 3874 sq. km or correspondingly 15 per cent and 6 per cent of the whole area of the country. Lithuania is divided into 10 counties. The county of Vilnius is the largest one and is situated in the Eastern part of Lithuania. Vilnius is the capital of Lithuania and the centre of the Vilnius county. The county of Taurage is the smallest one and is situated in the South-western part of Lithuania. The Taurage town is the county centre.

### 2.1. Population at the Beginning of the Year ('000)



## 2.2. Unemployment Rate in per cent



## 2.3. Gross Domestic Product (GDP)

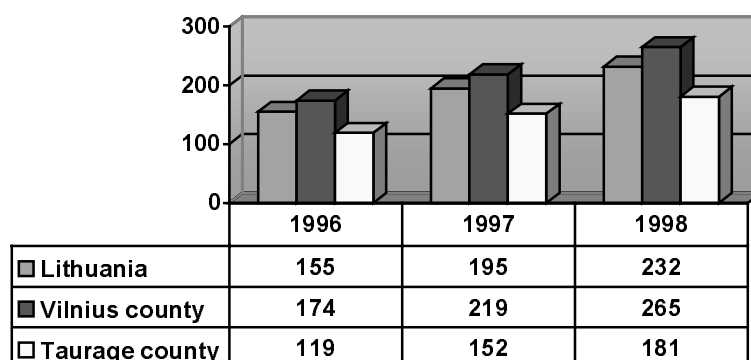
	1996		1997		1998	
	GDP (%)	GDP per capita (thousand USD)	GDP ( %)	GDP per capita (thousand USD)	GDP (%)	GDP per capita (thousand USD)
Lithuania	100	2,1	100	2,6	100	2,9
Vilnius county	28,5	2,5	29,3	3,1	32,0	3,8
Taurage county	2,6	1,6	2,3	1,7	2,1	1,8

## 2.4. Employed Population by Economic Activity (average annual number in per cent)

	Total		Agriculture, hunting and forestry		Industry		Construction		Services	
	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998
<b>Lithuania</b>	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
<b>Vilnius county</b>	26,0	26,0	2	2	5,0	5,0	2,0	2,0	17,0	17,0
<b>Taurage county</b>	3,0	3,0	1	1	*	*	*	*	1,3	1,3

\*- does not even make a half per cent

## 2.5. Average Monthly Gross Earnings in USD/month



## 2.6. Direct Foreign Investment (1 January; in per cent)

	1996	1997	1998	1999
Lithuania	100,0	100,0	100,0	100,0
Vilnius county	38,0	43,0	53,0	61,0
Taurage county	0,7	0,6	0,3	0,3

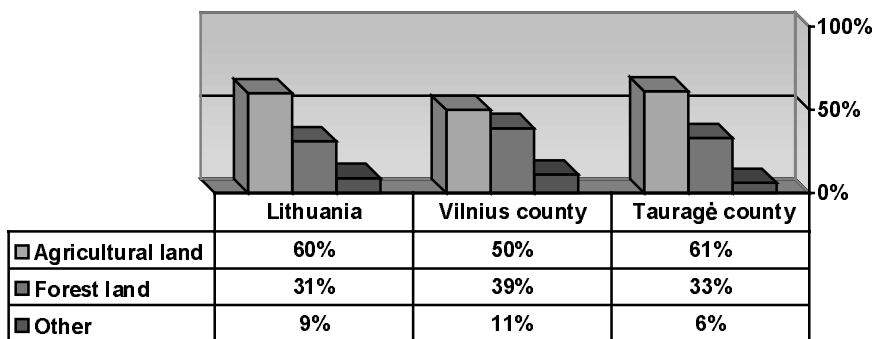
The distribution of direct foreign investments in different counties is very uneven. The investments in the Vilnius county make more than a half of all the investments and in comparison with other regions have been increasing every year.

The rate of unemployment, the employed population by economic activity, average monthly gross earnings, direct foreign investments show great economic difference in Vilnius and Taurage counties.

Analysing the market in the whole country from legal point of view, it is noticed that legal conditions for the market development in Vilnius county and Taurage county are the same. Land, buildings, apartments and rights to them as well as the transactions on property transfer are registered in the Real Property Register kept by the State Land Cadastre and Register. Laws and by-laws necessary for promoting the development of the real property market have been adopted, the state institutions and private companies have been established as well.

## 3. STRUCTURE OF LAND STOCK

Structure of Land Stock

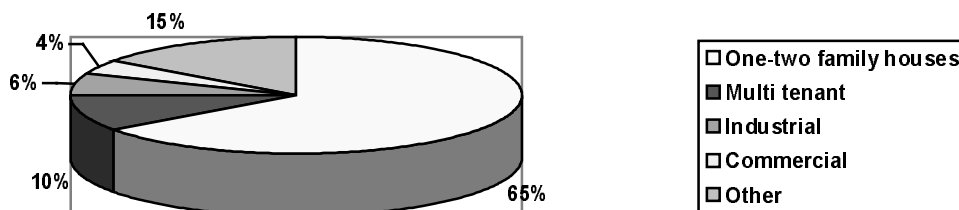


Agricultural land covers the major part of the territory although forests cover a lot too.

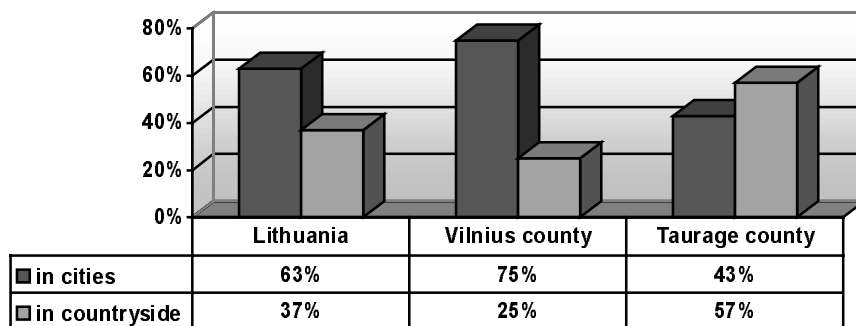
The distribution of agricultural land differs in different counties. If the agricultural land in Tauragė county covers 11 % larger territory than in Vilnius county, the area of forests is larger in Vilnius than in Tauragė county.

## 4. STRUCTURE OF BUILDINGS IN LITHUANIA

### 4.1. Structure of Buildings



### 4.2. Stock of Dwellings in Cities and Countryside



The dwelling stock in cities and countryside of different counties differs a lot. The dwelling stock in the Vilnius county is the largest one and makes about 75%. The lowest one is in Taurage county 43% and Marijampole 43%.

## 5. RESTORATION OF OWNERSHIP RIGHTS AND PRIVATISATION

By 1 January 2000, the citizens of the Republic of Lithuania submitted 682 000 applications to restore ownership rights to the land area of 3,99 mln ha.

Along with the land privatisation, the transactions on selling-buying, gifting or leasing of private land are concluded.

The restoration of ownership rights and privatisation of different types of immovable properties differ in different regions.

### Restoration of Ownership Rights and Privatisation of Different Types of Real Property in per cent, 2000 01 01

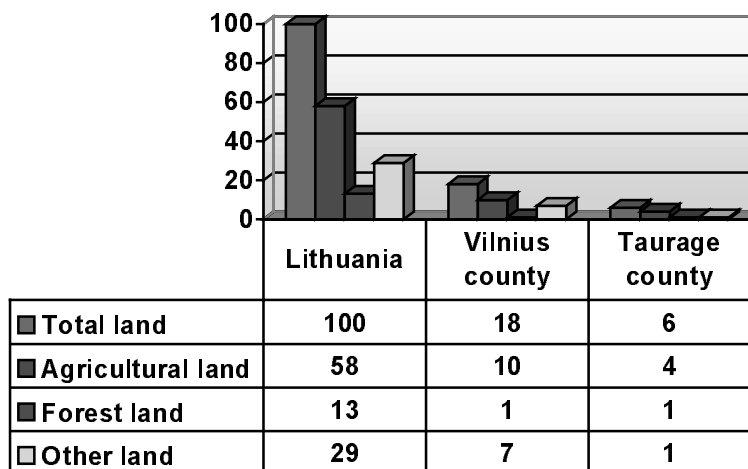
	Lithuania		Vilnius county		Tauragė county	
	Ownership	Lease/use	Ownership	Lease/use	Ownership	Lease/use
Agricultural land	43%	57%	28%	72%	46%	54%
Agricultural building	25%	75%	31%	69%	30%	70%
Forest	14%	86%	9%	91%	13%	87%
Urban land	15%	85%	13%	87%	16%	84%
Apartments	96%	4%	96%	4%	97%	3%

Apartments are mostly privatised and the rate of apartments privatisation is similar in different counties. The speed of restoration of ownership rights to land and urban areas has been increasing.

## 6. LAND MARKET

The annual activity of land market in Lithuania is about 4 % or it means that 4 % of land parcels change their owners. The activity of land market in the Vilnius county is about 5% and in the Taurage county this figure stands at 3%.

### 6.1. Transactions with Different Types of Land in per cent



Land market is the most active in Vilnius county especially in the city and district of Vilnius. The annual land market in Vilnius county makes 18% of the whole Lithuanian land market. The land market in Taurage county is the lowest one and makes 6% of the whole land market in Lithuania.

In 1999, the average price for 1 square meter of the residential land in Vilnius was 10-40 EURO, in Klaipeda and Kaunas 5-25 EURO, in Siauliai and Panevezys 3-10 EURO.

Industrial land is obtained in the auctions arranged by a municipality or acquired from private persons. Industrial land price for 1 square meter is 9-15 EURO in cities depending on the location. The price for private parcels in the best places for commerce in Vilnius exceeds 150 EURO for square meter.

### 6.2. Agricultural and Forest Land

The market of agricultural parcels is the most active in Lithuania. Agricultural parcels make more than 58% of all land parcels transferred in Lithuania per year. The market activity of agricultural parcels in Vilnius county reaches 54% and in Taurage county 69% of all land transactions in those counties per year. The market of agricultural land parcels in Vilnius county makes 17% and in Taurage 7% of all Lithuanian market of agricultural land parcels per year.

The highest prices for agricultural land are in Vilnius county and reaches 730 EURO for a hectare, the lowest prices are in Taurage and Telsiai counties - 230 EURO/ha.

The transfer of forestland parcels is becoming more active. Annually 6% of forestland parcels change the owners - 4 % in Vilnius county and 5% in Taurage county.

Forestland prices are almost the same over the whole territory of Lithuania and depend on amount, age and quality of wood. Mostly it is 0,7 –3,0 thousand EURO per ha for nature forest.

## 7. MARKET OF BUILDINGS AND APARTMENTS

Buildings market can be divided into residential (1-2 family houses and apartments) and non-residential (commercial and industrial) buildings.

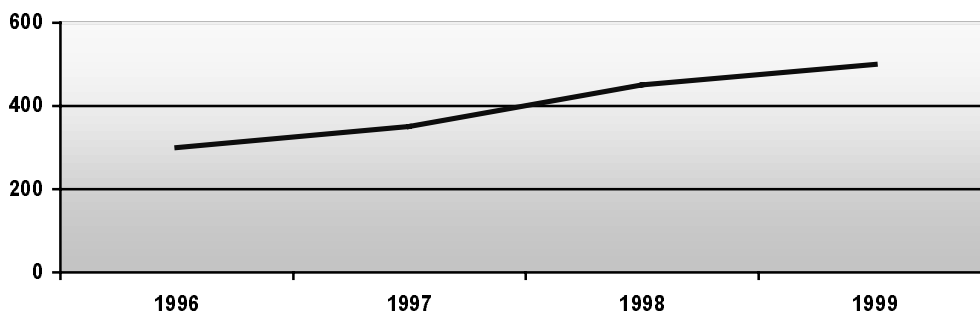
The market of 1-2 family houses in Vilnius county is higher than in Taurage county and is especially low in small towns and settlements.

Prices for 1-2 family houses mostly depend on the location and are related to the prices of land for residential houses. The market price for not too large and quite new houses in good location is close or a bit higher than the construction costs.

The apartment market is the most active in Vilnius county especially in the city. In 1999, the selling-buying, gifting of apartments in Vilnius county made 27%, in Taurage county 4%, Telsiai county 3% of the whole apartment market in the country.

Two or three room apartments are most common and make almost 60 % of the total number of apartments. The area of new apartments is 70-120 square meters and is larger than the average one.

**Prices of 2-room Apartments EURO/m<sup>2</sup> in Vilnius**



It is difficult to determine the average prices for industrial buildings and premises. The prices are in a very wide range depending on the location, area and condition. Average prices for industrial premises from to 15-30 EURO/m<sup>2</sup>.

## 8. LEASE OF PRIVATE LAND

Lease of private land is not popular in Lithuania yet. At present the rent of private land makes about 6 %.

### 8.1. Data on Private Land Lease in Counties by 1 April 2000, in per cent

	<b>Total</b>	<b>Agricultural land</b>	<b>Forestland</b>	<b>Other land</b>
Lithuania	100	99	*	1
Vilnius county	2	2	*	*
Taurage county	3	3	*	*
Siauliai county	38	38	*	*
Panevezys county	22	22	*	*

\*- land lease does not reach 0,5 per cent

The lease of private land in Vilnius and Taurage counties is not popular. The lease of agricultural land is the most popular in Siauliai county and makes 38 %, in Panevezys county 22 % of all land leased in Lithuania.

## 9. RENT OF RESIDENTIAL AND NON-RESIDENTIAL SPACE

Purchase and sale of apartments is more common than renting. The monthly rent for 1-2-3-4 room apartments in Vilnius is about 100-150 EURO per month plus additional payment for public utilities. In the centre of Vilnius and the Old Town the rent prices are the highest ones and make 10-15 EURO for one square meter per month plus additional expenses for public utilities.

The rent of non-residential space is the most active in Vilnius and Klaipeda.

Production premises and warehouses in Taurage county and other parts of the county of Vilnius are available for very low prices.

### Rents of Non-residential Space

	<b>Office EURO/m<sup>2</sup>/year</b>	<b>Retail EURO/m<sup>2</sup>/year</b>	<b>Industrial/warehouses EURO/m<sup>2</sup>/year</b>
Centre of Vilnius	240-300	300-480	60-120
County of Vilnius	80-180	95-240	15-60
County of Taurage	40-80	45-110	5-25

## 10. REAL PROPERTY MORTGAGE

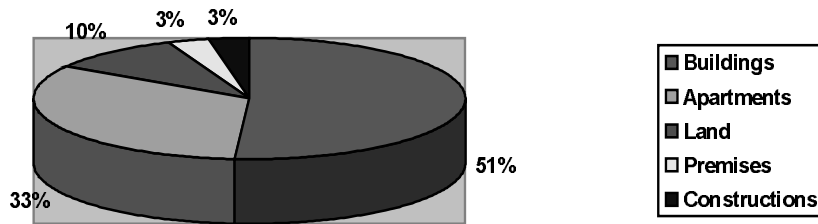
The Seimas of the Republic of Lithuania adopted laws and by-laws regulating the mortgaging of movable and immovable properties. Mortgages are registered by local courts.

The annual interest rate for mortgaging real property usually is 9-12 %. The loan accounts for 70% of the property value. The annual interest rate varies and depends on the period and purpose for which the loan is taken. The annual interest rate also varies according to the average interest rate (in USD) offered by the London inter bank.

The figure below shows the distribution of mortgaged real estate.



### Mortgaged Real Estate in per cent (objects)



The number of registered real property mortgages in Vilnius county is 6 times more than in Taugare county.

## 11. REAL PROPERTY TAXATION SYSTEM

Right now natural persons in Lithuania are paying tax on land and land lease. Other real property, such as buildings, apartments are not taxed. Legal persons are paying tax on land and other real property. At present, the law on the reorganisation of the taxation system is under discussion in the Seimas of the Republic of Lithuania. The law envisages taxing all real property.

## 12. SUMMARY

12.1. The legal framework is of fundamental importance in defining how the real property market operates and how transparent an efficient it is. All the necessary laws and by-laws regulating privatisation and market of real property have been passed in Lithuania.

12.2. The economic importance of real property in general and of establishing functioning real property markets for Lithuania's economic development should be properly understood.

12.3. Ownership rights to the existing real property are being restored and if there is no such possibility it is compensated by restituting land in another place, granting a land parcel *gratis* in a city, or by compensating in bonds or cash. The real property privatisation is going on too.

12.4. Seeking to make the real property market more active it is very important to speed up the restoration of ownership rights and complete the privatisation of the objects subject for privatisation. The speed of restoration of ownership rights to real property and privatisation differs in different regions.

12.5. The market of land and other real property differs in different regions. The analysis shows that the dynamics of the real property market is influenced by the following main economic and other factors:

- The number of privatised real properties;
- Employed population by economic activity;
- Unemployment rate;

- Average monthly gross earning;
- Foreign direct investment;
- Population density;
- Development of infrastructure;
- Property crediting system, etc.

12.6. The activity of the real property market is increasing every year. The market of apartments is the most active of all real properties. The sale and purchase of flats is especially active in Vilnius, Klaipeda and Kaunas counties.

12.7. The lease of private real property especially of residential houses, apartments and land has not yet become popular in Lithuania. However during the last several years the number of leases is likely to increase.

12.8. Natural and legal persons can take loans from banks and other crediting institutions by mortgaging real property. However, too high annual interest rate prevents the acquisition of housing, the development of the real property market and small and medium business.

12.9. Natural persons only pay the tax on land and land lease but they do not pay taxes on other real property as buildings and apartments. Such a situation does not promote the effective use of real property, and small families are not interested in selling apartments or houses with large area.

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